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State of Montana
Office of the Legislative Auditor

REPORT TO THE LEGISLATURE

MONTANA HISTORICAL SOCIETY

Financial-Compliance Audit
For the Two Fiscal Years Ended June 30, 1988

This report contains three recommendations for improvement of the society's operations. The issues addressed in the report concern the society's noncompliance with state law and policy regarding contracted services and financial reporting.

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. This individual agency audit report is not intended to comply with the Single Audit Act of 1984 or OMB Circular A-128 and is therefore not intended for distribution to federal grantor agencies. The Office of the Legislative Auditor issues a statewide biennial Single Audit Report which complies with the reporting requirements listed above. The Single Audit Report for the two fiscal years ended June 30, 1987 has been issued. Copies of the Single Audit Report can be obtained by contacting:

Office of the Legislative Auditor
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LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
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DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON
Operations and EDP Audit

JAMES GILLET
Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

April 1989

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana Historical Society's financial activity for fiscal years 1986-87 and 1987-88. The society's written response to the audit recommendations is included in the back of the audit report.

We thank the interim director and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Scott A. Seacat", written over a horizontal line.

Scott A. Seacat
Legislative Auditor



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Office of the Legislative Auditor

MONTANA HISTORICAL SOCIETY

Financial-Compliance Audit
For the Two Fiscal Years Ended June 30, 1988

Audit staff involved in this audit were: Pearl Allen, Maryrose Beasley, Dan Gaughan, Diane Hulst, Chuck Jensen, and Jill Roullier.

APPOINTED AND ADMINISTRATIVE OFFICIALS

MONTANA HISTORICAL SOCIETY BOARD OF TRUSTEES

		Term Expires <u>July 1 of</u>
James R. Berry	Wolf Point	1989
John J. Burke	Butte	1990
Stuart W. Conner	Billings	1993
Bruce L. Ennis	Billings	1991
Leif Erickson	Bigfork	1991
Helen Hornby	Livingston	1993
William Mackay	Roscoe	1989
Michael P. Malone	Bozeman	1992
Loran Perry	Havre	1990
Harold Poulsen	Great Falls	1992
James W. Reger	Billings	1990
Ward Shanahan	Helena	1992
Hal Stearns	Helena	1991
Ronald W. Torstenson	Kalispell	1993
Wilbur P. Werner	Cut Bank	1989

MONTANA HISTORICAL SOCIETY PRESERVATION REVIEW BOARD

		Term Expires <u>October 1 of</u>
Avis Anderson	Glendive	1990
Tom Foor	Missoula	1989
Don Hyyppa	Helena	1988*
Dick King	Havre	1991
Jim McDonald	Missoula	1992
William G. Melton	Missoula	1990
Ross Plambeck	Kalispell	1991
Fred Quivik	Butte	1992
Ellen Sievert	Great Falls	1991

* Continues to serve until appointment of new term pursuant to 2-15-124, MCA.

MONTANA HISTORICAL SOCIETY

Robert Clark	Interim Director as of December 9, 1988
Dr. Robert Archibald	Director until December 8, 1988
Brian Cockhill	Administrative Officer Centralized Services

SUMMARY OF RECOMMENDATIONS

This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply.

Page

Recommendation #1

The Montana Historical Society comply with state law and policy concerning contracted employees.

3

Agency Response: Concur. See page 17.

Recommendation #2

The Montana Historical Society comply with state law and policy by establishing more effective procedures to ensure contracts include all required provisions.

4

Agency Response: Concur. See page 17.

Recommendation #3

The Montana Historical Society record operating transfers in accordance with state law and policy.

5

Agency Response: Do Not Concur. See page 17.

GENERAL

We performed a financial-compliance audit of the Montana Historical Society for fiscal years 1986-87 and 1987-88. The objectives of the audit were to:

1. Make recommendations for improvement in the management and internal controls of the society.
2. Determine if the society complied with applicable laws and regulations.
3. Determine if the society's financial schedules present fairly the results of operations for the two fiscal years ended June 30, 1988.
4. Determine the status of prior audit recommendations.

The previous audit of the society, for the two fiscal years ended June 30, 1986, contained two recommendations. The society has implemented both recommendations.

This report contains three recommendations to the society. These recommendations address areas where compliance with laws and regulations and financial reporting can be improved. Other areas of concern deemed not to have a significant effect on the successful operations of the programs within the Montana Historical Society are not specifically included in the report, but have been discussed with management.

In accordance with section 5-13-307, MCA, we analyzed and disclosed the cost, if significant, of implementing the recommendations.

BACKGROUND

The Montana Historical Society was established in 1865 by the Territorial Legislature. State law authorized the society to become "... an agency of state government for the use, learning, culture, and enjoyment of the citizens of the state and for the acquisition, preservation and protection of historical records, art, archival and museum objects, historical places, sites, and monuments. The society has custody, maintenance and operation of the historical library, museums, art galleries, and historical places, sites and monuments."

Fifteen trustees, appointed by the Governor with the consent of the Senate, administer the society. The society's director handles the immediate direction, management, and control of the society. The society was authorized 51 and 47 full-time equivalent (FTE) employees in fiscal years 1986-87 and 1987-88, respectively.

CONTRACTED SERVICES

As shown on pages 11 and 12 of this report, the Montana Historical Society recorded contracted services expenditures of \$386,853 in fiscal year 1986-87 and \$200,169 in fiscal year 1987-88. During this two-year period, the society had approximately 85 professional personal services contracts. During the audit, we noted concerns regarding the society's contracted employees and contract requirements, as discussed below.

Contracted Employees

The society contracted for professional personal services with individuals who were designated as independent contractors in their contract although they had an employer/employee relationship with the society. Employees should be placed on the payroll, not engaged on a contracted services basis.

Section 39-71-120, MCA, defines an independent contractor as follows:

- (1) An "independent contractor" is one who renders service in the course of an occupation and:
 - (a) has been and will continue to be free from control or direction over the performance of the services, both under his contract and in fact; and
 - (b) is engaged in an independently established trade, occupation, profession, or business.
- (2) An individual performing services for remuneration is considered to be an employee under this chapter unless the requirements of subsection (1) are met.

We noted 11 contracts in effect during the audit period where the individual contracted with did not meet the criteria of an independent contractor. The personal service contracts were for such services as tour guides, custodial duties, and general maintenance work at the Original Governor's Mansion. Two of the contracts were also for preservation work associated with the society's collections. The expenditures charged to contracted services for these contracts totaled \$35,731 for the two fiscal years ended June 30, 1988.

Society personnel had supervisory discretion and control over the contract employees. The society provided workers' compensation insurance and unemployment insurance coverage for three of the contracted employees. The society could potentially be held responsible for state and federal tax withholding and/or workers' compensation insurance and unemployment insurance benefit premium payments for these contracted employees.

Agency personnel indicated the services the contracted employees provided needed to be performed and could not be performed with the society's current authorized FTE. In some instances, society personnel considered provision of these services to be an emergency. The society should have worked with the Governor's Office to resolve its need for additional employees.

RECOMMENDATION #1

We recommend the Montana Historical Society comply with state law and policy concerning contracted employees.

Contract Requirements

Contracted services policies and laws in effect for the audit period included Management Memo 4-81-4R, which establishes 16 minimum requirements for contract content, and section 18-1-112, MCA, which requires contracts to contain a provision for Montana product preference.

We tested 5 contracts for compliance with these requirements. None of the contracts contained the required provision for Montana product preference. Each of the contracts tested did not include one or more of the 16 minimum requirements listed in Management Memo 4-81-4R. For example, none of the contracts tested contained documentation certifying that the contractor was covered by workers' compensation insurance or was exempt from such coverage. Management Memo 4-81-4R specifies that when independent contractor status is sought by the contractor, certification is required that the contractor has elected workers' compensation coverage or has an approved exemption from coverage. If the contractor is not covered by workers' compensation insurance or has not received an approved exemption, the state could be held liable for injuries incurred by the contractor or his employees during the performance of the contract. Concerns with the certification of workers' compensation insurance coverage were also noted during a previous performance audit, State Agency Use of Contracted Services (87SP-35), for society contracts in effect during fiscal year 1985-86.

Agency personnel indicated that a standard contract form is used and each contract is reviewed by an attorney for legal content. Revision of the standard contract form was overlooked when the above requirements became effective. Society personnel should ensure contracts are updated to comply with current state contracted services requirements.

RECOMMENDATION #2

We recommend the Montana Historical Society comply with state law and policy by establishing more effective procedures to ensure contracts include all required provisions.

OPERATING TRANSFERS

Section 17-1-102(4), MCA, requires state agencies to record all transactions on their financial records in accordance with generally accepted accounting principles (GAAP) and accounting procedures prescribed by the Department of Administration to implement GAAP. The Department of Administration's prescribed procedures are explained in the Montana Operations Manual and Management Memos.

The Montana Historical Society made routine transfers of moneys between accounting entities for its ongoing operations. The transactions were improperly coded as decreases of prior year revenue adjustments or current revenues in the contributing entity and increases of the same account in the receiving entity. The proper accounts to record these transactions would be operating transfers-in in the receiving entity and operating transfers out of the contributing entity, as required by Department of Administration Management Memos 2-83-3 and 2-88-1.

As a result of these errors, the society's Statewide Budgeting and Accounting System (SBAS) records are misstated in six accounts and four funds for each fiscal year of the audit period as shown in the schedule at the top of page 8 of our opinion on the society's financial schedules. We qualified our opinion on the Schedule of Changes in Fund Balances (page 9) and the Schedule of Budgeted Revenue and Transfers In - Estimated and Actual (page 10) due to the significance of these errors.

Society personnel indicated the procedures used to transfer moneys between funds were followed after consulting with state accounting personnel and reference to Statement 1 issued by the National Council of Governmental Accounting. Although the method of offsetting current year revenues is in accordance with GAAP, it is not in accordance with state accounting policy. State law requires compliance with both. Since the policies established by the Accounting Division of the Department of Administration also conform to GAAP, the society should comply with these procedures. Compliance with state accounting procedures is necessary to ensure consistent application of accounting procedures on a statewide basis.

RECOMMENDATION #3

We recommend the Montana Historical Society record operating transfers in accordance with state law and policy.

INDEPENDENT AUDITOR'S REPORT
AND AGENCY FINANCIAL SCHEDULES

SUMMARY OF INDEPENDENT AUDITOR'S REPORT

The independent auditor's report issued in this report is intended to convey to the reader of the financial schedules the degree of reliance that can be placed on the amounts presented.

The qualified opinion on the Schedule of Changes in Fund Balances and the Schedule of Budgeted Revenue and Transfers In - Estimated and Actual indicates the reader of the financial schedules should use caution when using the financial information from these schedules. The schedules are misstated because the department improperly recorded operating transfers.

We issued an unqualified opinion on the Schedules of Budgeted Program Expenditures and Transfers Out by Object and Fund - Budgeted and Actual. This means the schedules are fairly stated in all material respects and the user of this information from the Statewide Budgeting and Accounting System (SBAS) may rely on the information presented.



LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

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Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the financial schedules of the Montana Historical Society for each of the two fiscal years ended June 30, 1987 and 1988 as shown on pages 9 through 16. The information contained in these schedules is the responsibility of the society's management. Our responsibility is to express an opinion on those financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the society's financial schedules are prepared in accordance with state accounting policy and are not intended to be a presentation in conformity with generally accepted accounting principles.

The Montana Historical Society makes routine transfers of moneys between accounting entities for its ongoing operations. The transactions are improperly coded as decreases of prior year revenue adjustments or current revenues in the contributing entity and increases of the same accounts in the receiving entity. The transactions should have been recorded as transfers in and transfers out. As a result, the following misstatements occurred.

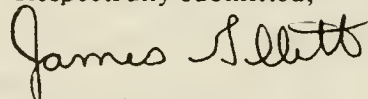
	Fund Over (Under) Stated Amount			
	Special Revenue	Enterprise	Expendable Trust	Nonexpendable Trust
<u>Fiscal Year 1986-87</u>				
Budgeted Revenue				
(Investment Earnings)	\$ 3,332			
(Grants, Contracts, & Donations)	12,454			
Nonbudgeted Revenue			\$(12,454)	\$(3,332)
Budgeted Transfers In				
(Other Financing Sources)	(95,136)	\$(30,000)		
Budgeted Transfers Out		(30,000)		
Nonbudgeted Transfers Out			(91,804)	(3,332)
Prior Year Revenue				
Adjustments	79,350		(79,350)	
<u>Fiscal Year 1987-88</u>				
Budgeted Revenue				
(Investment Earnings)	10,020			
Nonbudgeted Revenue			(6,900)	(3,120)
Budgeted Transfers In				
(Other Financing Sources)	(84,543)	(30,000)		
Budgeted Transfers Out		(38,500)		
Nonbudgeted Transfers Out			(72,923)	(3,120)
Prior Year Revenue				
Adjustments	74,523	(8,500)	(66,023)	

In our opinion, except for the effect of the matter discussed in paragraph four, the Schedule of Changes in Fund Balances and the Schedule of Budgeted Revenue and Transfers In - Estimated and Actual present fairly, in all material respects, the results of operation and changes in fund balances for the two fiscal years ended June 30, 1988, in conformity with the basis of accounting described in Note 1.

In our opinion, the Schedule of Budgeted Program Expenditures and Transfers Out by Object and Fund - Budgeted and Actual for fiscal years 1986-87 and 1987-88 present fairly, in all material respects, the results of operations of the Montana Historical Society for the fiscal years ended June 30, 1987 and 1988, in conformity with the basis of accounting described in Note 1.

As discussed in Notes 5 and 6 to the financial schedules, the Montana Historical Society reorganized its programs at the beginning of fiscal year 1987-88 and moved a trust from the Nonexpendable Trust Fund to the Expendable Trust Fund during fiscal year 1986-87.

Respectfully submitted,



James Gillett, CPA
Deputy Legislative Auditor

March 17, 1989

MONTANA HISTORICAL SOCIETY
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1988

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Enterprise Fund</u>	<u>Expendable Trust Fund</u>	<u>Nonexpendable Trust Fund</u>
FUND BALANCE: July 1, 1986	\$ -0-	\$ <u>72,441</u>	\$ <u>131,204</u>	\$ -0-	\$ <u>547,269</u>
ADDITIONS:					
<u>Fiscal Year 1986-87</u>					
Budgeted Revenue & Transfers In	2,423	721,325	426,467		
Support From State Of Montana	1,056,078				
Prior Year Revenue Adjustments		96,280	121	(79,350)	
Direct Entries To Fund Balance (Note 6)		150,000		436,236	
Nonbudgeted Revenue & Transfers In				12,493	5,938
<u>Fiscal Year 1987-88</u>					
Budgeted Revenue & Transfers In	2,032	414,800	461,018		
Support From State Of Montana	1,094,610				
Cash Transfers In		31,805			
Prior Year Revenue Adjustments		91,586	(8,501)	(66,023)	
Nonbudgeted Revenue & Transfers In				15,628	7,953
Total Additions	<u>2,155,143</u>	<u>1,505,796</u>	<u>879,105</u>	<u>318,984</u>	<u>13,891</u>
REDUCTIONS:					
<u>Fiscal Year 1986-87</u>					
Budgeted Expenditures & Transfers Out	1,059,882	846,682	412,068		
Cash Transfers Out		404			
Prior Year Expenditures		9			
Prior Year Expenditure Adjustments	(1,381)	14,549	(807)		
Nonbudgeted Expenditures & Transfers Out			3,996	1,050	
Nonbudgeted Prior Year Expenditure Adjustment			(10,505)		
Direct Entries To Fund Balance (Note 6)					436,236
<u>Fiscal Year 1987-88</u>					
Budgeted Expenditures & Transfers Out	1,098,352	563,449	429,033		
Prior Year Expenditure Adjustments	(1,710)	18,080	(75)		
Nonbudgeted Expenditures & Transfers Out			(20,918)	2,336	4,000
Nonbudgeted Prior Year Expenditure Adjustment			(5,496)		
Total Reductions	<u>2,115,143</u>	<u>1,443,173</u>	<u>807,296</u>	<u>3,386</u>	<u>440,236</u>
FUND BALANCE: June 30, 1988	\$ -0-	\$ <u>135,064</u>	\$ <u>203,013</u>	\$ <u>315,598</u>	\$ <u>120,924</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 13 through 16.

MONTANA HISTORICAL SOCIETY
SCHEDULE OF BUDGETED REVENUE AND TRANSFERS IN - ESTIMATED AND ACTUAL
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1988

	Charges For Services	Investment Earnings	Federal Indirect Cost Recoveries	Sale of Documents & Merchandise	Grants, Contracts, Donations	Federal	Other Financing Sources	Total
<u>Fiscal Year 1987-88</u>								
GENERAL FUND								
Estimated Revenue	\$2,500							\$ 2,500
Actual Revenue	<u>2,032</u>							<u>2,032</u>
Collections Over (Under) Estimate	\$ <u>(468)</u>							\$ <u>(468)</u>
SPECIAL REVENUE								
Estimated Revenue		\$ 10,700	\$27,114	\$ 38,474	\$ 496,765	\$ 691,879		\$1,264,932
Actual Revenue		<u>14,883</u>	<u>27,114</u>	<u>23,340</u>	<u>105,486</u>	<u>243,977</u>		<u>414,800</u>
Collections Over (Under) Estimate		\$ <u>4,183</u>	\$ <u>-0-</u>	\$ <u>(15,134)</u>	\$ <u>(391,279)</u>	\$ <u>(447,902)</u>		\$ <u>(850,132)</u>
ENTERPRISE FUND								
Estimated Revenue				\$444,767			\$41,320	\$ 486,087
Actual Revenue				<u>419,698</u>			<u>41,320</u>	<u>461,018</u>
Collections Over (Under) Estimate				\$ <u>(25,069)</u>			\$ <u>-0-</u>	\$ <u>(25,069)</u>
<u>Fiscal Year 1986-87</u>								
GENERAL FUND								
Estimated Revenue	\$2,500							\$ 2,500
Actual Revenue	<u>2,423</u>							<u>2,423</u>
Collections Over (Under) Estimate	\$ <u>(77)</u>							\$ <u>(77)</u>
SPECIAL REVENUE FUND								
Estimated Revenue		\$ 165,500	\$27,000	\$ 55,061	\$ 479,291	\$ 987,911		\$1,714,763
Actual Revenue		<u>8,303</u>	<u>27,000</u>	<u>22,484</u>	<u>206,479</u>	<u>457,059</u>		<u>721,325</u>
Collections Over (Under) Estimate		\$ <u>(157,197)</u>	\$ <u>-0-</u>	\$ <u>(32,577)</u>	\$ <u>(272,812)</u>	\$ <u>(530,852)</u>		\$ <u>(993,438)</u>
ENTERPRISE FUND								
Estimated Revenue				\$361,000			\$41,224	\$ 402,224
Actual Revenue				<u>386,509</u>			<u>39,958</u>	<u>426,467</u>
Collections Over (Under) Estimate				\$ <u>25,509</u>			\$ <u>(1,266)</u>	\$ <u>24,243</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 13 through 16.

MONTANA HISTORICAL SOCIETY
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES AND TRANSFERS OUT BY OBJECT AND FUND - BUDGETED AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1988

	<u>Administration</u>	<u>Library</u>	<u>Museum</u>	<u>Magazine</u>	<u>Historical Sites Preservation</u>	<u>Total</u>
PERSONAL SERVICES						
Salaries	\$263,686	\$298,236	\$160,858	\$ 97,365	\$136,117	\$ 956,262
Employee Benefits	<u>60,122</u>	<u>67,117</u>	<u>38,552</u>	<u>20,931</u>	<u>29,477</u>	<u>216,199</u>
Total	<u>323,808</u>	<u>365,353</u>	<u>199,410</u>	<u>118,296</u>	<u>165,594</u>	<u>1,172,461</u>
OPERATING EXPENSES						
Contracted Services	61,846	19,852	72,419	42,211	3,841	200,169
Supplies & Materials	8,649	17,112	42,408	5,118	2,110	75,397
Communications	13,807	9,250	5,719	23,602	10,570	62,948
Travel	9,661	4,678	2,988	3,851	12,080	33,258
Rent	123,982	4,006	508	7,648	7,956	144,100
Repair & Maintenance	8,595	5,534	1,086	2,008	3,226	20,449
Other Expenses	4,489	3,771	1,486	3,959	3,828	17,533
Goods Purchased For Resale				222,340		222,340
Total	<u>231,029</u>	<u>64,203</u>	<u>126,614</u>	<u>310,737</u>	<u>43,611</u>	<u>776,194</u>
EQUIPMENT AND INTANGIBLE ASSETS						
Equipment		<u>17,474</u>	<u>297</u>			<u>17,771</u>
Total		<u>17,474</u>	<u>297</u>			<u>17,771</u>
GRANTS						
From Federal Sources					<u>83,088</u>	<u>83,088</u>
Total					<u>83,088</u>	<u>83,088</u>
TRANSFERS						
Accounting Entity Transfers				<u>41,320</u>		<u>41,320</u>
Total				<u>41,320</u>		<u>41,320</u>
TOTAL PROGRAM EXPENDITURES	<u>\$554,837</u>	<u>\$447,030</u>	<u>\$326,321</u>	<u>\$470,353</u>	<u>\$292,293</u>	<u>\$2,090,834</u>
GENERAL FUND						
Budgeted	\$442,407	\$363,928	\$207,379	\$ 41,320	\$ 66,379	\$1,121,413
Actual	<u>425,388</u>	<u>361,651</u>	<u>207,137</u>	<u>41,320</u>	<u>62,856</u>	<u>1,098,352</u>
Unspent Budget Authority	<u>\$ 17,019</u>	<u>\$ 2,277</u>	<u>\$ 242</u>	<u>\$ -0-</u>	<u>\$ 3,523</u>	<u>\$ 23,061</u>
SPECIAL REVENUE FUND						
Budgeted	\$208,349	\$148,574	\$165,442		\$763,805	\$1,286,170
Actual	<u>129,449</u>	<u>85,379</u>	<u>119,184</u>		<u>229,437</u>	<u>563,449</u>
Unspent Budget Authority	<u>\$ 78,900</u>	<u>\$ 63,195</u>	<u>\$ 46,258</u>		<u>\$534,368</u>	<u>\$ 722,721</u>
ENTERPRISE FUND						
Budgeted				\$500,087		\$ 500,087
Actual				<u>429,033</u>		<u>429,033</u>
Unspent Budget Authority				<u>\$ 71,054</u>		<u>\$ 71,054</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 13 through 16.

MONTANA HISTORICAL SOCIETY
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES AND TRANSFERS OUT BY OBJECT AND FUND - BUDGETED AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1987

	Administration	Library	Museum	Magazine	Photograph Archives	Historical Sites Preservation	Archives	Education	Total
PERSONAL SERVICES									
Salaries	\$224,594	\$108,651	\$150,386	\$108,024	\$65,093	\$137,076	\$117,701	\$39,630	\$ 951,155
Employee Benefits	<u>50,106</u>	<u>23,073</u>	<u>34,176</u>	<u>22,886</u>	<u>15,826</u>	<u>28,611</u>	<u>26,160</u>	<u>6,663</u>	<u>207,501</u>
Total	<u>274,700</u>	<u>131,724</u>	<u>184,562</u>	<u>130,910</u>	<u>80,919</u>	<u>165,687</u>	<u>143,861</u>	<u>46,293</u>	<u>1,158,656</u>
OPERATING EXPENSES									
Contracted Services	49,117	13,728	71,572	38,192	170	194,906	8,897	10,271	386,853
Supplies & Materials	4,275	3,539	24,708	3,740	5,229	1,688	2,116	1,492	46,787
Communications	10,023	3,913	5,282	13,601	1,457	9,186	2,636	2,569	48,667
Travel	3,460	389	3,494	2,384	525	9,178	4,052	2,041	25,523
Rent	95,200	2,975	1,056	6,887	1,291	8,004	309	196	115,918
Repair & Maintenance	3,139	4,889	1,090	2,288	62	3,154	478	261	15,361
Other Expenses	1,962	2,738	1,696	3,914	1,727	3,620	1,246	984	17,887
Goods Purchased For Resale				<u>203,785</u>					<u>203,785</u>
Total	<u>167,176</u>	<u>32,171</u>	<u>108,898</u>	<u>274,791</u>	<u>10,461</u>	<u>229,736</u>	<u>19,734</u>	<u>17,814</u>	<u>860,781</u>
EQUIPMENT AND INTANGIBLE ASSETS									
Equipment	175	10,264	5,034	8,549	1,350		3,446		28,818
Intangible Assets	<u>60</u>			<u>5,700</u>					<u>5,760</u>
Total	<u>235</u>	<u>10,264</u>	<u>5,034</u>	<u>14,249</u>	<u>1,350</u>		<u>3,446</u>		<u>34,578</u>
GRANTS									
From Federal Sources						<u>103,326</u>			<u>103,326</u>
Total						<u>103,326</u>			<u>103,326</u>
TRANSFERS									
Accounting Entity Transfers				<u>39,958</u>					<u>39,958</u>
Total				<u>39,958</u>					<u>39,958</u>
DEBT SERVICE									
Installment Purchases (Note 8)	<u>121,333</u>								<u>121,333</u>
Total	<u>121,333</u>								<u>121,333</u>
TOTAL PROGRAM EXPENDITURES	<u>\$563,444</u>	<u>\$174,159</u>	<u>\$298,494</u>	<u>\$459,908</u>	<u>\$92,730</u>	<u>\$498,749</u>	<u>\$167,041</u>	<u>\$64,107</u>	<u>\$2,318,632</u>
GENERAL FUND									
Budgeted	\$388,573	\$154,122	\$207,601	\$ 39,958	\$79,097	\$ 67,752	\$110,330	\$14,389	\$1,061,822
Actual	<u>388,504</u>	<u>154,028</u>	<u>207,567</u>	<u>39,958</u>	<u>79,097</u>	<u>67,751</u>	<u>109,817</u>	<u>13,160</u>	<u>1,059,882</u>
Unspent Budget Authority	<u>\$ 69</u>	<u>\$ 94</u>	<u>\$ 34</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 1</u>	<u>\$ 513</u>	<u>\$ 1,229</u>	<u>\$ 1,940</u>
SPECIAL REVENUE FUND									
Budgeted	\$193,392	\$ 38,633	\$128,074	\$ 9,200	\$17,974	\$949,518	\$ 62,482	\$65,828	\$1,465,101
Actual	<u>174,940</u>	<u>20,131</u>	<u>90,927</u>	<u>7,882</u>	<u>13,633</u>	<u>430,998</u>	<u>57,224</u>	<u>50,947</u>	<u>846,682</u>
Unspent Budget Authority	<u>\$ 18,452</u>	<u>\$ 18,502</u>	<u>\$ 37,147</u>	<u>\$ 1,318</u>	<u>\$ 4,341</u>	<u>\$518,520</u>	<u>\$ 5,258</u>	<u>\$14,881</u>	<u>\$ 618,419</u>
ENTERPRISE FUND									
Budgeted				\$452,633					\$ 452,633
Actual				<u>412,068</u>					<u>412,068</u>
Unspent Budget Authority				<u>\$ 40,565</u>					<u>\$ 40,565</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 13 through 16.

MONTANA HISTORICAL SOCIETY
NOTES TO THE FINANCIAL SCHEDULES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1988

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Montana Historical Society utilizes the modified accrual basis of accounting described in the Montana Operations Manual for General, Special Revenue, and Expendable Trust Funds. Under the modified accrual basis of accounting, a valid obligation exists when the associated liability is incurred except for the following items which are also considered valid obligations under state accounting policy:

- If the appropriation provided funds to complete a given project, the entire amount of a service contract may be accrued even though the services are rendered in fiscal years subsequent to the fiscal year in which the expenditure is accrued.
- The anticipated cost of equipment is expensed in the fiscal year in which budgeted.
- Goods ordered, but not received as of the fiscal year-end, may be accrued if the purchase order was issued in the fiscal year in which the anticipated expenditure is to be accrued.

Revenues are recorded when received in cash unless susceptible to accrual. Revenues are susceptible to accrual if:

1. They are measurable and available to finance expenditures of the fiscal period; or
2. Are material in amount and are not received at the normal time of receipt.

The society utilizes the accrual basis of accounting for Enterprise and Nonexpendable Trust Funds. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred (if measurable).

Basis of Presentation

The financial schedules were prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustments. Accounts are organized on the basis of funds according to state law. The following fund types are used by the society:

General - accounts for all financial resources except those required to be accounted for in another fund.

Special Revenue - accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Legislative appropriation is required to spend from this fund. Society activity recorded in this fund is primarily related to federal assistance programs and donations.

Enterprise - accounts for operations:

- A. That are financed and operated in a manner similar to private business enterprises whenever the intent of the legislature is that costs (i.e., expenses, including depreciation) of providing goods or services to the general public on a continuing basis are to be financed or recovered primarily through user charges.
- B. Whenever the legislature has decided that periodic determination of revenue earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The merchandise and magazine operations are accounted for in this fund.

Expendable and Nonexpendable Trust - accounts for assets held by a governmental unit in a trustee capacity for individuals, private organizations, other governmental units, and/or other funds. Private donations established as trusts which permit spending the trust principal are recorded in the Expendable Trust Fund. Trusts which permit spending only earnings from investment of the trust principle are recorded in the Nonexpendable Trust Fund.

Vacation and Sick Leave

Employees at the society accumulate both vacation and sick leave. Employees are paid for 100 percent of unused vacation and 25 percent of unused sick leave credits upon termination. Expenditures for termination pay currently are absorbed in the annual operational costs of the society. At June 30, 1988, the society had a compensated absence liability of \$14,806 in the Enterprise Fund and \$83,038 in the Long-Term Debt Account Group.

2. EMPLOYEES' RETIREMENT SYSTEM

The Montana Historical Society employees are covered by the Public Employees' Retirement System (PERS). The society's contributions to PERS for the fiscal years ended June 30, 1987 and 1988, were \$59,800 and \$60,722, respectively.

3. MUSEUM COLLECTION

Museum collections at the society include C.M. Russell, Poindexter, Ethnographic, Griffin, History, Haynes, Johns Gun, Original Governor's Mansion, and the Permanent Fine Arts Collection. Library and Archives collections consist of books, periodicals, maps, microfiche, photographs, monographs, and manuscripts.

The practice followed by many museums is not to record the values of purchased and donated collections because of the impracticability of valuing these assets. However, for insurance purposes the value of the collection as of June 30, 1988 was \$26,189,192.

4. GENERAL FUND BALANCE

The General Fund is a statewide fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the statewide General Fund as long as they stay within their appropriation limits. Thus, on an agency schedule the General Fund beginning and ending fund balance will always be zero.

5. REORGANIZATION/PROGRAM CHANGES

On July 1, 1987, the Montana Historical Society combined three programs with two of its other five existing programs. The Administration program absorbed the Education program and the Library program absorbed the Archives and Photograph Archives programs.

6. DIRECT ENTRIES TO FUND BALANCE

In fiscal year 1986-87, the society moved a trust from the Nonexpendable Trust Fund to the Expendable Trust Fund. Because the trust principal may be expended, the trust should have been initially recorded in the Expendable Trust Fund. Direct Entries to Fund Balance of \$416,799 in these funds in fiscal year 1986-87 were to correct the July 1, 1986 Fund Balances for this misclassification.

The \$150,000 Direct Entry to Fund Balance in the Special Revenue Fund for fiscal year 1986-87 resulted from the transfer of an inter-entity loan to the Montana

Arts Council for the purchase of the Charles M. Russell collection. The Council administers funding of the Cultural and Aesthetic Program.

7. DEFERRED REVENUE

The society collects money for one and two year subscriptions for the Montana History Magazine. As money is collected, it is recorded as deferred revenue. When publications are mailed, revenue is recognized and deferred revenue is reduced by the subscription price of those publications. At June 30, 1988, the society deferred \$110,136 of magazine subscription sales revenue.

8. C.M. RUSSELL PURCHASE

In fiscal year 1986-87, the society completed payment for the purchase of a collection of C.M. Russell paintings and letters. The expenditures were recorded as installment purchases in the Administration Program on the Schedule of Expenditures and Transfers Out - Budgeted and Actual.

AGENCY RESPONSE



MONTANA HISTORICAL SOCIETY

225 NORTH ROBERTS STREET • (406) 444-2694 • HELENA, MONTANA 59620-9990

April 25, 1989

RECEIVED

APR 27 1989

Montana Legislative Auditor

Scott Seacat
Legislative Auditor
Office of the Legislative Auditor
State Capitol
Helena, MT 59620

Dear Mr. Seacat:

The following is our response to recommendations in the financial Compliance Audit for the two fiscal years ended June 30, 1988.

Recommendation #1

We recommend the Montana Historical Society comply with state law and policy concerning contracted employees.

Response

Concur. With the implementation of the FY90 Budget the Society will be in compliance with state law and policy concerning contracted employees.

Recommendation #2

We recommend the Montana Historical Society comply with state law and policy by establishing more effective procedures to ensure contracts include all required provisions.

Response

Concur. Contracts will be revised to include all required provisions effective fiscal year 90.

Recommendation #3

We recommend the Montana Historical Society record operating transfers in accordance with state law and policy.

Response

The Society does not concur with this recommendation. We maintain we were and are in compliance not only with Generally Accepted Accounting Principles (GAAP) but also with state law and policy,

and therefore do not concur with the Auditor's conclusion that these transactions were improperly coded or that SBAS records are mis-stated and disagree with the qualified opinion that is stated.

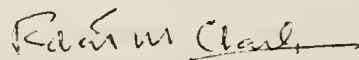
Montana Operations Manual (MOM) 2-0210.00 requires all State Agencies to record all financial activity in accordance with GAAP. As a result the Society consulted with Department of Administration personnel whose responsibility is to prescribe procedures for financial activity to be recorded in accordance with GAAP. (MCA Section 17-1-102). Department of Administration (D of A) personnel advised the Society to record these transfers in accordance with National Council of Governmental Accounting Statement I which states "Alternately, transfers of resources from the fund legally required to receive them to the fund legally authorized to expend them may be reported as deductions from gross revenues in the former and additions to revenues in the latter" [NCGAS 1 Paragraph 106, FN18].

As a result of the reliance placed on D of A and their responsibility per MCA-17-1-102 the Society maintains that these transfers are not only in compliance with Generally Accepted Accounting Principles but also with state policy.

The Society further maintains that the Schedule of Changes in Fund Balances and the Schedule of Budgeted Revenue and Transfers In - Estimated and Actual as stated, present fairly the operations and changes in Fund Balance for the two fiscal years.

As a practical matter, the securing of operating transfer authority, as suggested, is not easily accomplished and is often untimely given the necessity of some expenditures to be made in a restricted time frame.

Sincerely,



Robert M. Clark
Interim Director

RMC/db

